

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

January 16, 2001

The Capital Projects and Bond Oversight Committee met on Tuesday, January 16, 2001, at 1:00 PM, at the Doug Sapp Correctional Industries Building, 1041 Leestown Road, in Frankfort, Kentucky. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chairman; Senator Robert Leeper, Vice Chairman; Senators Tom Buford and Bob Jackson; and Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests testifying before the Committee: Representative Rocky Adkins; Tom Grissom and Bill Whitney, Department of Corrections; Mike Hulett, Kentucky State Police; Dr. Michael McCall, Dr. Patrick Lake, Bruce Bailey, and Gary Grogan, Kentucky Community and Technical College System; Sherron Jackson, Council on Postsecondary Education; Bill Hintze, Governor's Office for Policy and Management; Commissioner Armond Russ and Jim Abbott, Finance and Administration Cabinet; Roger Recktenwald, Kentucky Infrastructure Authority; and Gordon Mullis, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Kevin Mason, Lola Williamson Lyle, Lou Pierce, and Shawn Bowen.

Chairman Haydon first introduced Mr. Bill Whitney, Deputy Commissioner of Adult Institutions, Department of Corrections, to make introductory remarks. Mr. Whitney welcomed the Committee, and then introduced Mr. Tom Grissom, Director of Prison Industries.

Chairman Haydon noted that inmate labor was used to renovate the building that now serves as the Doug Sapp Correctional Industries Building, and asked about the use of inmate labor on similar projects. Mr. Whitney said the Department of Corrections has several prison dormitories projects underway using inmate labor.

Representative Damron made a motion to approve the minutes of the December 19, 2000 meeting as submitted. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Haydon called on Ms. Mary Lynn Collins, Capital Projects and Bond Oversight Committee Staff Administrator, to review various correspondence and information items included in members' folders. Among the items Ms. Collins reviewed was a staff update on various capital projects; updated status report on community development projects authorized in the 2000-02 budget; and an information item about the design for the new Transportation Cabinet building.

Chairman Haydon then introduced Mr. Bill Hintze, Deputy Budget Director, Governor's Office for Policy and Management (GOPM), and Commissioner Armond Russ, Department for Facilities Management, to discuss a project report submitted by the Finance and Administration Cabinet.

Mr. Hintze first reported a \$604,700 allocation from the Heritage Land Conservation Fund to the Department of Fish and Wildlife Resources for the acquisition of 306 acres along the Kentucky River. The land is mainly in Owen County, and is known as the Gilbert Tract.

Chairman Haydon said acquisitions over \$400,000 are to be reported to the Committee, but no further action is required.

Mr. Hintze next reported the Finance and Administration Cabinet has approved a request by the Kentucky State Police (KSP) to utilize \$1,099,998 in unbudgeted agency funds to replace underground copper cable with fiber optic cable at five existing KSP posts (Post 1 - Mayfield; Post 7 - Richmond; Post 8 - Morehead; Post 11 - London; and Post 12 - Frankfort). He said these replacements are necessary to correct breakages in the system. Mr. Hintze said this effort was part of the original scope of the Basic Radio System project, authorized by the 1998 General Assembly, but it was deleted out of the project when sufficient funds were not available. He said the Governor's Office for Technology has provided a letter of support for the copper cable replacement.

Chairman Haydon asked what the total cost of the Basic Radio System project was. Mr. Hintze said the total cost is approximately \$25 million. He said in addition, the 2000-2002 budget included communications towers for two new state police posts in Henry and Perry Counties. He said, prior to the 1998 authorization, the Administration had explored the possibility of deploying an 800 MHz radio system. However, the total cost of the project was estimated to be \$125 million, but plans for an 800 MHz radio system were later dropped.

In response to a question from Representative Marcotte, Mr. Mike Hulett, Budget Director, Kentucky State Police, said the major source of funds for the projects is a fee the KSP collects for background checks. He said during the 2000 General Assembly the background check fee was increased from \$4 to \$10.

Representative Damron noted that both KSP and the Administrative Office of the Courts (AOC) do background checks. He asked what types are run by each agency. Mr. Hulett responded that he did not know.

Representative Damron asked if the receipts from the background checks are an ongoing source of money that will be available and could possibly be transferred, in part, to AOC to pay for its background checks which are run for free. Mr. Hulett said the receipts are an ongoing source of funds.

Chairman Haydon said no action was necessary since the individual projects are under \$400,000.

Mr. Hintze next reported that the Kentucky Community and Technical College System (KCTCS) plans to consolidate two projects authorized in the 2000-02 Executive Budget: Ashland Technical College Original Campus Renovation project (\$6,900,000) and the Northeast Kentucky Regional Industrial Park Authority project (\$2,000,000). Mr. Hintze said in addition, the scope of the project will be increased by \$1,500,000. The source of the scope increase is two federal grants: a Community Development Block Grant for \$500,000, and a grant from the Economic Development Administration for \$1,000,000.

Mr. Hintze said the people in the local area, along with KCTCS, have requested building a new facility at the Northeast Kentucky Regional Industrial Park instead of renovating the current Ashland Technical College buildings. He said eventually, the entire Ashland Technical College will be moved to this new industrial park. Mr. Hintze said this consolidated project is consistent in every way with legislative policy - it is located in the same area of the state, and will address the same job training goals.

Dr. Michael McCall, KCTCS President, said this project is a unique opportunity for Ashland, and noted some of the Ashland Technical College buildings are in need of extensive renovations. He said the current facilities will be available for lease or for sale once the entire college is moved to the industrial park.

In response to a question from Representative Wayne, Dr. McCall said currently the technical college is located in Ashland in an area that is landlocked with no room for expansion. The new site for the college is centrally located in a 1,000 acre industrial park, it is readily accessible, and located off the interstate. Infrastructure for the facility is already in place at the industrial park.

Representative Wayne noted the new site will be built on an old strip mine site. He asked if an environmental review has been conducted. Representative Adkins said it was his understanding that before the state will take deed of that property and then turn it over to the counties for an industrial site, an environmental assessment has to be done. Mr. Warren Nash, Economic Development Cabinet, said he thought environmental studies were done on the site.

In response to questions from Senator Leeper, Dr. McCall said no architectural design work has been done relative to renovating the existing campus buildings. He also said the cost to address any code deficiencies there will be absorbed within the operating budget. Mr. Hintze said KCTCS has an appropriated maintenance pool to cover the cost of the code upgrade.

In response to another question from Senator Leeper, Mr. Hintze said the new Ashland Technical College building will be owned by the Commonwealth for the use and benefit of KCTCS. He said the idea of consolidating the college at the new site was not discussed in the existing Six-Year Plan. The opportunity to move the college to the industrial park surfaced when the 2000 General Assembly included the \$2 million line item in the Economic Development Cabinet budget for development of the Northeast Industrial Park and an additional \$1.5 million in federal funding was received.

In response to a question from Representative Damron, Dr. McCall said they will put in place an agreement to reserve a sufficient amount of buffer space at the industrial park for the college to expand in the future.

Representative Damron asked if Morehead State University (MoSU) will be involved in this project. Dr. McCall said during the first phase of the project, they had preliminary discussions with MoSU, and the future expansion will definitely involve MoSU.

In response to questions from Senator Buford, Representative Adkins said the 1,000 acres in the industrial park have been deeded to the five counties involved in the project - Boyd, Greenup, Carter, Lawrence, and Elliott Counties. The industrial park is located on the Boyd-Greenup-Carter County line and is located on both sides of Interstate 64. The industrial park is administered by a corporation known as the Northeast Kentucky Regional Industrial Park Authority (NKRIPA), and the remaining land in the industrial park will be sold.

Representative Wayne said the Committee had previously reviewed and approved a similar location change for a University of Louisville (UofL) project. In that case, UofL proposed moving a Research Building authorized for the

Belknap Campus to the Health Sciences Center Campus. Representative Wayne said the Committee's approval for the UofL modification was made contingent upon approval by the Council on Postsecondary Education (CPE). He said for the sake of consistency, the same thing should be done in this case. Dr. McCall said Dr. Gordon Davies, CPE President, is supportive of the project consolidation. He added that any future buildings for the technical college would go through the normal capital budgeting process.

Representative Adkins asked how quickly CPE could approve this project, noting they would like to move this project forward as quickly as possible.

Chairman Haydon asked Mr. Sherron Jackson, CPE Senior Associate for EEO & Facilities, how long it would take the Council to consider this project. Mr. Jackson said the Council did not take action on the UofL project referenced earlier. He said it was determined that it was not necessary for CPE to approve that project because there was no substantial changes, just a relocation of the project. He suggested that it might be more appropriate for Dr. Davies to provide comments on the project.

Representative Wayne made a motion to approve the Ashland Technical College project based on review and approval by CPE. The motion was seconded by Representative Damron.

Dr. McCall asked if the Committee would mind if Dr. Davies, as president of CPE, submitted a letter in support of the project rather than wait for a review by the full Council.

Senator Leeper said he thought he recalled receiving a letter from CPE indicating that it reviewed the UofL project.

Representative Wayne asked the Committee's staff what action CPE took on the UofL (Belknap Research Building) project. Ms. Collins said as she recalled, the Committee approved the project contingent upon review by CPE. She said she did not recall the review was by the CPE President instead of the Council.

Senator Jackson said he thought the Ashland Technical College proposal fit the intent and spirit of higher education reform. He said it sounds like all parties have signed off on the KCTCS project, and he would not want to see the Committee slow down the project if a letter from the CPE President will suffice.

Representative Wayne said the Committee should make sure that CPE has a voice in this project because postsecondary education reform intended for CPE to have an oversight function.

Representative Damron said he thought this project was different from the UofL project. He said the UofL project modification included a commitment by UofL to seek authorization of the original project, a Research Building on the Belknap Campus, in the next budget cycle. He said in the case of the Ashland Technical College, the location is being substituted because the existing campus is landlocked, and the new location will allow room for expansion. He said he thought a letter from the CPE President should be sufficient.

Senator Buford made a motion to amend Representative Wayne's original motion and approve the Ashland Technical College project contingent upon receipt of a letter of recommendation from CPE President Gordon Davies. The motion was seconded by Representative Damron and passed by voice vote.

Representative Adkins said if ever there was a project that fits into higher education reform, this project does. He thanked the Committee for listening and he said he appreciated the Committee's support.

Next, Mr. Bruce Bailey, KCTCS, and Dr. Patrick Lake, President of Henderson Community College, discussed an unbudgeted lease exceeding \$200,000 for Henderson Community College. Mr. Bailey said Henderson Community College is implementing a new industrial maintenance technology program and needs additional space for the program. The annual cost of the least is \$240,000 for 26,002 sq. ft. of space. Mr. Bailey said the cost of the lease will be paid from private donations and from the Henderson Community College Foundation Fund. He said there is sufficient funding to cover the estimated operating and lease costs for the first two years of the program.

Dr. Lake said this project is desperately needed for the Henderson County area. He said the need was identified by a 1992 needs assessment which was followed by a feasibility study and a major gift campaign.

Senator Leeper asked if this lease has been reviewed by CPE. Mr. Jackson said CPE is reviewing the project, and will notify the Finance Secretary's office and the Committee of its action.

Senator Leeper asked about future funding of the program. Mr. Jackson said if future funding is required, KCTCS, through the regular budget process, would make a request to the Council to include it as part of its 2002-2004 operating budget, and the Council, through its review process, would make a recommendation with regards to any future funding.

Representative Wayne asked what KCTCS anticipates its budget request for this lease to be in 2002. Mr. Bailey said the Community College has its own funding for the first two years of activity. After that, they will seek operating funds from the General Assembly or from donations.

Representative Wayne said the Committee has a policy that private funds must be certified in writing. He asked if KCTCS has received written certification of these funds. Dr. McCall said they would be happy to get written certification of the donated funds.

In response to a question from Representative Marcotte, Mr. Bailey said the lease has a 30-day cancellation clause. At any time the funding is not there, they could cancel the lease.

Representative Damron asked where the money for the operational portion of the program will come from. Mr. Bailey said the money for the first two or three years will be from private funds, including money to pay staff salaries and other operations.

Representative Damron said CPE should review the proposed program. While the lease can be cancelled at any time, by initially offering the program, the state is making a commitment to the students enrolled in the program.

Dr. McCall said unless there is a special appropriation, KCTCS typically initiates new programs through their own resources. He said the school will have time to demonstrate that the program is successful and should be funded. The college has the flexibility to reallocate resources as needed. Dr. McCall said this project is a win-win situation for KCTCS, and the school needs to make sure that it has these programs.

Representative Damron said the one of the provisions of higher education reform was to have CPE review the expansion of programs. He said that is why he thought it was important for CPE to endorse the project.

Representative Wayne made a motion to approve the new lease for Henderson Community College contingent upon CPE review. The motion was seconded by Senator Jackson and passed by voice vote.

Chairman Haydon next introduced Mr. Jim Abbott, Director, Division of Real Properties, to discuss a new state lease contract and an emergency state lease. Mr. Abbott first reported lease PR-4505, Department of Agriculture (Franklin Co.), with an annual cost of \$182,793. He said the new lease is needed to alleviate overcrowded conditions at the Department's current location.

Representative Marcotte said he would support this lease because the Department of Agriculture needs additional space. However, he said the proposed leases submitted to the Committee each month appear to be with the same landlords, and there appears to be a monopoly on Frankfort leases. He asked how limited the rental market is in Franklin County. Mr. Abbott said his department tries to create as level a playing field as possible but Franklin County is a relatively small market, and the state currently leases in excess of 1,800,000 sq. ft. and 129 facilities. He said in the case of this particular bid, there were a number of bidders.

Commissioner Russ said the state, in essence, is a monopoly buyer of leased property in Franklin County. In the past, the state has been very fortunate because there was an abundance of office space. He said as a result, the state was able to get favorable prices in comparison to Louisville or Lexington. However, the Franklin County rental space market is now aging with space going off-line. At the same time, little new space is being developed. Commissioner Russ said they are now seeing an increase in renewal rates and expect to see even greater increases. Consequently, he said, they are advocating for the state to build new office space in Frankfort to get this market balanced.

In response to a question from Senator Leeper, Mr. Abbott said there is a total of 25-30 parking spaces at the current location with 14 off-site parking spaces leased separately (PR-2624) from Militia Electric Company.

Representative Damron made a motion to approve the new lease for the Department of Agriculture. The motion was seconded by Representative Wayne and passed by voice vote.

Mr. Abbott next discussed an emergency lease for the Cabinet for Families and Children, Division of Family Support, in Lawrence Co. (PR-4550), with an annual cost of \$43,200. Mr. Abbott said this lease is temporary until a permanent location can be obtained through regular procurement procedures. The employees had to evacuate the current offices because of air quality concerns resulting from the a bat infestation. The firm of Jerry A. Taylor Environmental, Inc. confirmed numerous health dangers and hazards associated with the presence of bats. Mr. Abbott said they tried unsuccessfully to alleviate the bats before deciding to move.

Chairman Haydon said action is not required for emergency leases. He then introduced Mr. Roger Recktenwald, Executive Director, Kentucky Infrastructure Authority (KIA), to present three new projects proposed for KIA assistance. He first discussed a proposed \$633,700 Fund A (Federally-Assisted Wastewater

Revolving Loan Fund) loan for the City of White Plains. The Fund A loan will be used to install a gravity sewer system to serve the city.

Senator Leeper made a motion to approve the Fund A loan for the City of White Plains. The motion was seconded by Senator Jackson and passed by voice vote.

Mr. Recktenwald then discussed KIA's approval of the merger of the Beaver Elkhorn Water District and the Mud Creek Water District. These two water districts will be merged into the Southern Water and Sewer District and KIA will enter into various loan assumption agreements with the new district. Chairman Haydon said no action was required for the merger.

Lastly, Mr. Recktenwald reported a \$357,500 Fund F (Federally Assisted Drinking Water Revolving Loan Fund) loan for the Greater Fleming County Regional Water Commission. The Fund F loan will be used to purchase land to be used as part of a well field for a water supply project. Mr. Recktenwald said this is the first time Fund F has been used in this capacity in the state. He said there are several other major well field projects in and along the Ohio River.

Senator Jackson made a motion to approve the Fund F loan for the Greater Fleming County Regional Water Commission. The motion was seconded by Senator Buford and passed by voice vote.

Chairman Haydon then called on Mr. Don Mullis, Executive Director of the Office of Financial Management, to present the agency's bond activity report. Mr. Mullis first reported a new bond issue for State Property and Buildings Commission (SPBC) Revenue Refunding Bonds, Project No. 68 (Second Series), for \$50,454,934.

Senator Buford made a motion to approve the SPBC bond issue. The motion was seconded by Representative Damron and passed by voice vote.

Mr. Mullis then reported a new bond issue for Kentucky Asset/Liability Commission (ALCo) Project Notes, 2001 General Fund, First Series for \$38,515,000.

Senator Jackson made a motion to approve the new bond issue for ALCo. The motion was seconded by Representative Wayne and passed by voice vote.

Mr. Mullis next reported a revised bond issue for the Kentucky Economic Development Finance Authority Adjustable Rate Demand Health Care Facilities Revenue Bonds, Series 2000 (St. Luke Hospitals, Inc. project). Mr. Mullis said

this project was reviewed by the Committee previously and there was some confusion about the amount of the authorization. The bond resolution prepared by bond counsel listed the issue at \$28 million and the actual approval by the other authorities was \$29 million. The final cost of the transaction was in excess of \$28 million.

Chairman Haydon said no further action by the Committee is required.

Mr. Mullis presented a follow-up report for the University of Kentucky Housing and Dining System Revenue Bonds, Series R, dated December 1, 2000, for \$10,450,000. Chairman Haydon said this bond issue was approved by the Committee at its November meeting, and no further action by the Committee is required.

Lastly, Mr. Mullis reported one new bond issue with School Facilities Construction Commission (SFCC) debt service participation for Owsley County.

Representative Wayne made a motion to approve the school bond issue with SFCC debt service participation. The motion was seconded by Senator Buford and passed by voice vote. Representative Damron abstained from the vote, citing a potential conflict of interest.

Representative Damron asked that the Office of Financial Management provide a brief report on how much in Tax and Revenue Anticipation Notes the Asset/Liability Commission has issued each year and what the earnings have been. Mr. Mullis said he would provide the information.

Chairman Haydon said there were five locally funded school bond issues submitted to the Committee for review this month: Barbourville Independent (Knox Co.); Fayette County; Glasgow Independent (Barren Co.); Morgan County; and Russellville Independent (Logan Co.). He said all disclosure information has been filed, and no further action on these bond issues is required.

With there being no further business, Senator Buford made a motion to adjourn the meeting. The motion was seconded by Representative Damron and passed by voice vote. The meeting adjourned at 2:30 p.m. Upon adjournment, members toured the Doug Sapp Correctional Industries Building.